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Message Text

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21
ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

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R 160530Z AUG 74
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TO SECSTATE WASHDC 8539
INFO AMEMBASSY CANBERRA
AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE
CINCPAC
AMEMBASSY SUVA

C O N F I D E N T I A L WELLINGTON 2592

CINCPAC FOR POLAD

EO 11652: GDS
TAGS: PINT NZ
SUBJ: NEW ZEALAND POLITICAL SCENE AT MID-TERM

SUMMARY: SLIGHTLY MORE THAN HALF WAY THROUGH ITS MANDATE, NEW ZEALAND'S LABOUR GOVERNMENT FACES A TOUGH BATTLE FOR RE-ELECTION. THE ECONOMY IN GENERAL, AND INFLATION IN PARTICULAR, WEIGH HEAVILY AGAINST LABOUR. THE GOVERNMENT OF PRIME MINISTER KIRK HAS SO FAR BEEN UNABLE TO AMELIORATE THE DOUBLE DIGIT RATE OF INFLATION OR TO PROP UP SAGGING FOREIGN EXCHANGE RESERVES. THE NEW LEADER OF THE OPPOSITION, ROBERT MULDOON, CAN BE EXPETED TO MAKE THE STATE OF THE ECONOMY HIS CAMPAIGN PLATFOR FOR NOVEMBER 1975. END SUMMARY.

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1. NEW ZEALAND'S LABOUR GOVERNMENT HAS NOW ENTERED THE

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SECOND HALF OF ITS THREE-YEAR TERM IN OFFICE. WITH A 23
VOTE MAJORITY IN PARLIAMENT THERE IS NO DOUBT THAT
LABOUR WILL STAY IN POWER UNTIL THE MANDATORY DATE FOR
ELECTIONS IN NOVEMBER 1975. AND WHILE THERE IS
SOME JOCKEYING FOR POSITION AT THE NUMBER TWO LEVEL IN THE
CABINET, THERE IS EVERY REASON TO BELIEVE THAT PM KIRK
WILL LEAD LABOUR IN THOSE ELECTIONS. THOUGH STILL
RECOVERING FROMVARICOSE VEINS SURGERY COMPLICATED
BY A BLOOD CLOT, KIRK REMAINS FIRMLY INCONTROL OF THE
PARTY. WHILE A REPLAPSE OR A FAILURE TO COMPLETELY
RECOVER CANNOT BE RULED OUT, NO ONE HERE SEEMS INCLINED
TO TAKE SUCH A POSSIBILITY SERIOUSLY.

2. ON THEOPPOSITION SIDE, FORMER OPPOSITION LEADER (AND
FORMER PRIME MINISTER) JACK MARSHALL NOW RANKS NINTH IN
THE NATIONAL PARTY HIERARCHY. MULDOON IS SETTLING IN AS
LEADER OF THE OPPOSITION AND IS USING EVERY POSSIBLE OCCASION
TO ATTACK THE GOVERNMENT FOR FINANCIAL INCOMPETENCE AND MISHANDLING
OF THE ECONOMY. MULDOON WAS MODERATELY WELL RECEIVED THREE
WEEKS AGO AT NATIONAL PARTY'S ANNUAL CONFERENCE WHICH
WAS PROBABLY THE BEST HE COULD EXPECT GIVEN THE RATHER
UNCEREMONIOUS DOWNFALL HE ENGINEERED FOR MARSHALL. WITH
THE LEADERSHIP ISSUE SETTLED AND THE CONFERENCE
OUT OF THE WAY, MULDOON CAN NOW PUT HIS CONSIDERABLE
TALENTS TO WORK SHAPING THE PARTY TO HIS STYLE AND GETTING
ON WITH THE JOB OF WINNING THE NEXT ELECTIONS.
3. WINNING THE ELECTIONS, CONSIDERED NEXT TO IMPOSSIBLE
FOR NATIONAL JUST SIX MONTHS AGO, NOW APPEARS TO BE A
REAL POSSIBILITY. LABOUR HAS NOT BEEN ABLE TO STOP RISING
INFLATION AND NEW ZEALAND'S FOREIGN EXCHANGE RESERVES,
WHICH ROSE UNDER NATIONAL TO A VERY HIGH LEVEL, ARE DWINDLING.
IN FAIRNESS, LABOUR IS HANDICAPPED IN DOING ANYTHING VERY
DEFINITIVE ABOUT EITHER INFLATION OR THE BALANCE OF
PAYMENTS. THE LATTER IS FIRMLY LINKED TO THE WORLD PRICE
FOR NEW ZEALAND'S PRIMARY AGRICULTURAL PRODUCTS WHOSE
MARKET VALUE HAS DROPPED SOME FORTY PERCENT IN THE LAST
YEAR. AT THE SAME TIME, THE COST OF IMPORTS HAS INCREASED
AS HAS THE COST OF SHIPPING. CUTTING BACK ON IMPORTS
WOULD ONLY EXACERBATE AN ALREADY SERIOUS PROBLEM OF
SHORTAGES--HARDLY A POLICY DESIGNED TO WIN ELECTIONS..
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AND, THOUGH LABOUR IS MAKING A DETERMINED EFFORT TO
PROMOTE MANUFACTURED EXPORTS, FOREIGN EXCHANGE EARNINGS
FROM THIS SOURCE REMAIN A RELATIVELY MINOR FACTOR IN THE
ECONOMY.

4. FOR THE MOMENT, LABOUR IS TEMPORIZING ABOUT ITS FOREIGN
EXCHANGE DIFFICULTIES. IT HAS OBTAINED A SHORT TERM CREDIT
ABROAD AND WILL BE SEEKING MORE, WAITING FOR A DOWNTURN

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IN IMPORT PAYMENTS AND HOPING FOR THE DAY WHEN BEEF AND
LAMB PRICES INCREASE. LABOUR IS PHILOSOPHICALLY OPPOSED
TO DEVALUATION WHICH WOULD INCREASE RETURNS TO THE FARMERS
AND EXPORT MANUFACTURERS (WHO TRADITIONALLY VOTE NATIONAL
ANYWAY) WHILE INCREASING THE COST OF IMPORTED CONSUMER
ITEMS PURCHASED BY LABOUR-VOTING CITY DWELLERS. ALSO,
WITH WAGE INCREASES NOW TIED TO THE COST-OF-LIVING INDEX,
ANY INFLATION RESULZING FROM DEVALUATION WOULD SHOW UP
ALMOST IMMEDIATELY IN THE NATIONAL WAGE BILL.

5. IF THE FOREIGN EXCHANGE EQUATION IS POLITICALLY
INSOLUABLE FOR LABOUR, THE INFLATION PROBLEM IS HARDLY
LESS SO. CONTROLLING INFLATION BY MAKING TAXES STILL
HEAVEIR MIGHT ASSURE LABOUR'S TRANSFER TO THE OPPOSITION
BENCHES NEXT YEAR. A FURTHER TIGHTENING OF CREDIT COULD
CAUSE SEVERE OPERATING AND INVESTMENT CAPITAL SHORTAGES.
NOT VERY VIGOROUS EFFORTS AT PRICE CONTROLS HAVE FAILED
MISERABLY. REDUCING GOVERNMENT SPENDING BY CUTTING DOWN
ON SOCIAL PROGRAMS WOULD UPSET LABOUR'S SUPPORTERS,
WHO ARE THE CHIEF BENEFICIARIES OF THESE PROGRAMS.
THE GOVERMENT ESTIMATES THAT NEARLY HALF OF NEW ZEALAND'S
INFLATION IS IMPORTED, AND THUS SUBSTANTIALLY BEYOND THE
GOVERNMENT'S POWER TO CONTROL. AND STEPS TO CONTROL THE
DOMESTIC HALF OF INFLATION WOULD BE POLITICALLY PAINFUL.
AND SO FAR THERE IS LITTLE EVIDENCE TO SUGGEST THAT REALLY
COURAGEOUS MEASURES WILL BE TAKEN. SO INFLATION IS, AND
IS LIKELY TO REMAIN, THE GREAT ISSUE FOR BOTH LABOUR
AND NATIONAL, WITH LABOUR DEFINITELY ON THE DEFENSIVE.
WITH ALL THE POLITICAL COURAGE IN THE WORLD, LABOUR COULD
NOT CONTROL IMPORTED INFLATION, BUT AS THE PARTY IN POWER
IT WILL HAVE THE ONUS JUST THE SAME.

6. ALL OF THE ABOVE IS NOT TO SAY THAT LABOUR IS WITHOUT
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SOME ASSETS. FIRST AND FOREMOST AMONGH THESE IS THE FACT
THAT IT IS THE GOVERNMENT AND, AS SUCH, IS IN A STRONG
POSITION TO INFLUENCE PUBLIC OPINION. A CONCURRENT
PLUS FOR LABOUR IS THE FACT THAT IT HOLDS A 23 SEAT
MAJORITY IN A PARLIAMENT WHICH TOTALS ONLY 87 SEATS. IN
ORDER FOR LABOUR TO BE DEFEATED AT THE POLLS, NATIONAL
MUST MAKE A NET GAIN OF 12 SEATS. THIS WILL NOT BE EASY
IN A COUNTRY THAT TRADITIONALLY GIVES ITS GOVERNMENTS TWO
OR THREE TERMS AT A TIME. LABOUR ALSO HAS A STRONG TRUMP
CARD IN THE PERSONALITY OF NORMAN KIRK, EASILY THE BEST
LIKED POLITICIAN IN NEW ZEALAND. KIRK MAY BE ABLE TO
EXPLAIN AWAY SOME OF THE COUNTRY'S ECONOMIC PROBLEMS AS
BEING NO WORSE THAT THOSE IN THE REST OF THE WESTERN WORLD.
HE CAN ALSO BE EXPECTED TO ORIENT HIS CAMPAIGN AGAINST
ALL THAT IS BAD ABOUT ROB MULDOON. FOR ALL OF HIS UNDOUBTED

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INTELLECTUAL ABILITIES, MULDOON IS A LITTLE TOO AGRESSIVE
AND EGOTISTICAL FOR THE EASY-GOING NEW ZEALAND TEMPERAMENT.

7. COMMENT: PREDICTING ELECTIONS 16 MONTHS BEFORE THE
FACT IS NOT OUR PURPOSE; NEVERTHELESS THE LAST FEW MONTHS
HAVE SEEN A QUICKENING OF POLITICAL INTEREST IN NEW
ZEALAND. NATIONAL PARTY STALWARTS, WHO A YEAR AGO
PRIVATELY ADMITTED THEY SAW NO CHANCE OF RETURNING TO
POWER UNTIL AT LEAST 1978, NOW CONSIDER THE POSSIBILITIES
FOR A 1975 WIN TO BE 50-50. AT THE SAME TIME, SOME LABOUR
PARTY MEMBERS FEELY ADMIT THAT IF AN ELECTION WERE HELD
TODAY LABOUR WOULD LOSE. HOWEVER, THE ELECTION IS NOT
BEING HELD TODAY AND THE KIRK GOVERNMENT HAS TIME TO TRY
TO SOLVE SOME OF THE COUNTRY'S MAJOR ECONOMIC PROBLEMS.
THE EXTENT TO WHICH IT IS SUCCESSFUL IN THAT EFFORT WILL
BE A MAJOR FACTOR IN DETERMINING WHO WINS IN NOVEMBER 1975.
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